BILL # HB 2101

TITLE: ASRS; terminated employees; contributiosn refunds

SPONSOR: McClure

STATUS: As Introduced

PREPARED BY: Eric Jorgensen

FISCAL ANALYSIS

Description

HB 2101 changes the amount of contributions refunded to employees leaving the Arizona State Retirement System (ASRS). Currently, upon termination, employees can withdraw both contributions they made as well as a percentage of the employer contributions made on their behalf, based on years of service. For employees hired after the effective date of this bill, they would only be allowed to remove the contributions they made.

Estimated Impact

HB 2101 has no FY 2007 General Fund impact. This bill would generate annual General Fund savings of $1.3 million in approximately 10 years, based on FY 2007 salary levels. The bill does have a FY 2007 cost of $104,000 from the ASRS Administration Fund for the administrative costs of implementing the provisions of this bill.

Analysis

HB 2101 would provide decreased benefits to future employees. This decrease in benefits will result in a long term saving; however, there are no savings within the next 5 years. This is due to the structure of the current benefit.

The current benefit provides 2 options when an employee leaves ASRS not through death or retirement. The first option to the employee is leaving the accumulated contributions made for the employee's benefit in the system and receiving a retirement benefit when the employee becomes eligible.

Alternatively, the employee could choose to withdraw the contributions, with interest. The amount of the contributions withdrawn depends on years of service in ASRS. For employees with less than 5 years of service, only the employee contribution can be withdrawn. With more than 5 years of service, the employee could withdraw all of their contributions as well as a percentage of the employer contributions made for their benefit. The percentage depends on years of service, with 100% of the employer contributions available after 10 years of service.

Because this bill only affects new employees, and, under current law, employees with less than 5 years of service cannot withdraw any employer contributions; this bill would not have any impact for those first 5 years. After 5 years, the system would begin to have some savings because assets that would otherwise have been reverted to the employee would remain in the system. Because these assets would not be used to provide a specific benefit, they could be used to reduce the unfunded liability of the system.

Actuaries under contract for ASRS estimate that HB 2101 would decrease the ASRS contribution rate by 13 basis points (0.13%) by FY 2017, or 10 years after implementation. This decrease in the contribution rate would result in decreased Employee Related Expenditures for agencies. In terms of FY 2007 Personal Services amounts, the total savings to the state would be $1.9 million annually, $1.3 million of which would be to the General Fund. At that time, employees would also save $1.9 million.

Local Government Impact

The changes proposed in HB 2101 would not result in any immediate impact to local government and non-appropriated funds, but would result in long-term savings.

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